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Alamogordo FINANCIAL CORP.

2009 Annual Report

Est. 1934
BANK 34™

75 YEARS OF MAKING IT POSSIBLE

Alamogordo
FINANCIAL CORP.

Dear Shareholder,

We are pleased to present our audited financial statements for Alamogordo Financial Corporation. As of June 30, 2009, our total assets stood at $170.0 million. Total equity remains excellent at $29.4 million. On the following pages, you will find specific details as to our audited financial statements and related footnotes.

Alamogordo Financial Corporation owns 100% of the outstanding shares of BANK'34. With the change in the bank's name, we have successfully opened a new location in Las Cruces and today that branch is operating profitably. In fact, we are working on plans to build a new facility to permanently house the Las Cruces branch. The new branch will be located on North Telshor Blvd. just north of Home Depot.

Today, we are no longer just a savings institution or a home loan institution; we are a community bank. We continue to offer the same products and outstanding service that has built the reputation of this bank but in addition, we now offer full service commercial banking services. Our balance sheet is strong, as it always has been, with capital at 17.3%, but we have expanded our services to be more of a community bank.

BANK'34 and Alamogordo Financial Corporation have a long history (75 years) of serving Alamogordo and Southern New Mexico. Because of the strength of this organization, we have the foundation we need to grow profitably while maintaining safe and sound banking principles.

We value the trust you have placed in us and if you have any questions regarding your Alamogordo Financial Corporation investment, please contact us at (575) 437-9334.

Sincerely,

Karlon Cox

Karlon Cox
President
Alamogordo Financial Corporation

500 Tenth Street * Alamogordo NM 88310

Phone (575) 437-9334 * Fax (575) 437-7020

www.bank34online.com

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ALAMOGORDO FINANCIAL CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2009

Moss Adams LLP
6100 Uptown Blvd NE Suite 400
Albuquerque, New Mexico
(505) 878-7200

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ALAMOGORDO FINANCIAL CORPORATION

MOSS-ADAMS LLP
CERTIFIED PUBLIC ACCOUNTANTS | BUSINESS CONSULTANTS
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Independent Auditors' Report

Board of Directors
Alamogordo Financial Corporation

We have audited the consolidated balance sheets of Alamogordo Financial Corporation and subsidiary (Company) as of June 30, 2009 and 2008 and the related consolidated statements of income, changes in equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Alamogordo Financial Corporation and subsidiary as of June 30, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Albuquerque, New Mexico
September 8, 2009

ALAMOGORDO FINANCIAL CORPORATION
CONSOLIDATED BALANCE SHEETS
June 30, 2009 and 2008

ASSETS		**2009**	2008
Cash and due from banks	$	**1,675,704**	2,474,987
Interest-bearing deposits with banks		**8,931,190**	810,421
Securities			
Available-for-sale		**4,092,503**	305,681
Held-to-maturity		**-**	5,989,115
Loans held for investment, net		**144,491,277**	126,329,478
Loans held for sale		**616,215**	-
Real estate owned		**354,054**	-
Premises and equipment, net		**7,700,894**	6,857,703
Stock in Federal Home Loan Bank, at cost, substantially restricted		**1,079,800**	599,900
Accrued interest receivable		**587,932**	565,973
Income taxes receivable		**76,402**	80,148
Deferred income taxes		**217,088**	57,243
Prepaid and other assets		**196,555**	101,945
Total assets	$	**170,019,614**	144,172,594
LIABILITIES AND EQUITY			
Liabilities			
Deposits	$	**118,785,433**	102,400,165
FHLB advances		**20,520,132**	11,820,039
Escrows		**411,169**	461,602
Accrued interest and other liabilities		**943,055**	307,808
Total liabilities		**140,659,789**	114,989,614
Commitments and Contingencies			
Equity			
Preferred Stock, $.10 par value, 10,000,000 shares authorized, no shares issued or outstanding		**-**	-
Common stock, $.10 par value, 20,000,000 shares authorized, 1,316,996 and 1,315,059 issued and outstanding at 2009 and 2008, respectively		**131,700**	131,506
Treasury stock, at cost, 4,349 and 4,263 shares at 2009 and 2008, respectively		**(135,056)**	(132,915)
Additional paid in capital		**4,134,142**	4,125,121
Unearned ESOP shares and stock awards		**(114,299)**	(213,749)
Retained earnings, substantially restricted		**25,338,708**	25,282,831
Accumulated other comprehensive income, net of tax		**4,630**	(9,814)
Total equity		**29,359,825**	29,182,980
Total liabilities and equity	$	**170,019,614**	144,172,594

See Notes to Consolidated Financial Statements.

ALAMOGORDO FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
Years Ended June 30, 2009 and 2008

		2009	2008
Interest Income			
Interest and fees on loans	$	8,979,302	7,515,843
Interest on securities		124,559	459,853
Interest on mortgage-backed securities		97,033	18,617
Interest on other interest-earning assets		18,592	110,882
Total interest income		9,219,486	8,105,195
Interest Expense			
Interest on deposits		3,058,137	3,422,906
Interest on FHLB and other borrowings		677,639	167,011
Total interest expense		3,735,776	3,589,917
Net interest income		5,483,710	4,515,278
Provision for (reversal of) loan losses		656,224	(155,413)
Net interest income after provision for (reversal of) loan losses		4,827,486	4,670,691
Other Income (Loss)			
Service charges and fees		547,254	488,271
(Loss) gain on sale of other real estate owned		(51,572)	5,249
Gain on sale of investments		547,636	19,948
Gain on sale of mortgage loans		105,347	-
Loss on sale of property		(92,596)	-
Other		180,346	161,063
Total other income		1,236,415	674,531
Other Expenses			
Salaries and benefits		2,565,828	2,452,830
Occupancy		787,485	754,700
Data processing fees		454,771	399,185
Federal insurance premiums and other insurance expense		136,920	58,829
Advertising		161,318	155,049
Other		1,046,930	826,326
Total other expenses		5,153,252	4,646,919
Income before income taxes		910,649	698,303
Provision for income taxes		359,276	256,966
Net income	$	551,373	441,337

See Notes to Consolidated Financial Statements.

ALAMOGORDO FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
Years Ended June 30, 2009 and 2008

	Common Stock Shares	Common Stock Amount	Treasury Stock
Balances June 30, 2007	1,309,805	$ 130,981	(94,650)
Stock issued on exercise of stock options	2,357	235	-
Stock awards issued	-	-	-
Release of stock awards	2,897	290	-
Acquisition of common stock by the Company	-	-	(38,265)
Release of ESOP stock	-	-	-
Dividends declared and paid to stockholders	-	-	-
Comprehensive income			
Net income	-	-	-
Unrealized gain on available-for-sale securities, net of taxes	-	-	-
Total comprehensive income			
Balances June 30, 2008	1,315,059	131,506	(132,915)
Release of stock awards	1,937	194	-
Cancellation of stock awards	-	-	-
Acquisition of common stock by the Company	-	-	(2,141)
Release of ESOP stock	-	-	-
Dividends declared and paid to stockholders	-	-	-
Comprehensive income			
Net income	-	-	-
Unrealized gain on available-for-sale securities, net of taxes	-	-	-
Total comprehensive income			
Balances June 30, 2009	1,316,996	$ 131,700	(135,056)

See Notes to Consolidated Financial Statements.

Additional Paid In Capital	Unearned ESOP Shares & Stock Awards	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total Equity
$ 3,745,962	(57,120)	25,266,610	(84,538)	28,907,245
(235)	-	-	-	-
323,068	(323,068)	-	-	-
(290)	137,879	-	-	137,879
-	-	-	-	(38,265)
56,616	28,560	-	-	85,176
-	-	(425,116)	-	(425,116)
				28,666,919
-	-	441,337	-	441,337
-	-	-	74,724	74,724
				516,061
4,125,121	(213,749)	25,282,831	(9,814)	29,182,980
(194)	50,238	-	-	50,238
(20,652)	20,652	-	-	-
-	-	-	-	(2,141)
29,867	28,560	-	-	58,427
-	-	(495,496)	-	(495,496)
				(388,972)
-	-	551,373	-	551,373
-	-	-	14,444	14,444
				565,817
$ 4,134,142	(114,299)	25,338,708	4,630	29,359,825

ALAMOGORDO FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended June 30, 2009 and 2008

		2009	2008
Cash Flows From Operating Activities			
Net income	$	**551,373**	441,337
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation		**372,315**	352,987
Stock dividend on FHLB stock		**(7,100)**	(14,400)
Net amortization of premiums and discounts on securities		**5,011**	80,918
Loss (gain) on sale of other real estate owned		**51,573**	(5,249)
Loss on exchange of property		**62,270**	-
Gain on sale of investments		**(547,636)**	(19,948)
Gain on sale of loans		**(105,347)**	-
(Benefit) provision on deferred income taxes		**(100,822)**	99,163
Release of ESOP stock		**58,427**	85,176
Release of stock awards		**50,238**	138,114
Exercise of stock options		**-**	(235)
Provision for (reversal of) loan losses		**656,224**	(155,413)
Changes in assets and liabilities			
Loans held for sale		**(510,868)**	-
Accrued interest		**(21,959)**	(49,756)
Income taxes receivable		**3,746**	21,625
Other assets		**(94,610)**	(2,567)
Other real estate owned		**(460,286)**	-
Accrued interest and other liabilities		**576,224**	165,279
Net cash provided by operating activities		**538,773**	1,137,031
Cash Flows From Investing Activities			
Proceeds from sales of and principal pay downs on securities available-for-sale		**377,147**	5,122,952
Proceeds from maturities and principal payments of securities held-to-maturity		**6,547,636**	2,000,000
Purchase of FHLB stock		**(472,800)**	(263,700)
Purchases of securities available-for-sale		**(4,165,421)**	-
Net increase in loans		**(18,818,023)**	(14,963,222)
Purchases of premises and equipment		**(1,446,313)**	(254,214)
Disposals of premises and equipment		**168,537**	-
Net proceeds from sales of other real estate owned		**54,659**	12,843
Net cash used by investing activities		**(17,754,578)**	(8,345,341)

See Notes to Consolidated Financial Statements.

ALAMOGORDO FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
Years Ended June 30, 2009 and 2008

		2009	2008
Cash Flows From Financing Activities			
Net increase (decrease) in deposits	$	**16,385,268**	(5,343,144)
Net decrease in escrows		**(50,433)**	(168,921)
Payments on FHLB Advances		**(2,000,000)**	-
Proceeds from FHLB advances		**10,700,093**	8,983,220
Repurchase of Company stock		**(2,141)**	(38,265)
Cash dividends paid on common stock		**(495,496)**	(425,116)
Net cash provided by financing activities		**24,537,291**	3,007,774
Net increase (decrease) in cash and cash equivalents		**7,321,486**	(4,200,536)
Cash and cash equivalents, beginning of year		**3,285,408**	7,485,944
Cash and cash equivalents, end of year	**$**	**10,606,894**	3,285,408
Noncash investing and financing activities			
Transfers of loans to real estate owned	$	**354,054**	-
Cashless exercise of options		**-**	82,066
Unrealized gain on available-for-sale securities, net of tax		**14,444**	74,724
Supplemental disclosures			
Cash paid during the year for			
Income taxes	$	**286,000**	235,342
Interest on deposits and advances		**3,705,414**	3,604,034

See Notes to Consolidated Financial Statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations. Alamogordo Financial Corporation is a stock holding company that owns 100% of BANK'34 (Bank). On March 31, 2008, the Bank changed its name from Alamogordo Federal Savings and Loan Association to BANK'34. The Bank is a federally chartered stock savings bank and has a wholly-owned subsidiary, Space Age City Service Corporation. Space Age City Service Corporation was organized to hold, purchase and sell real estate assets. In September 2007, a statement of intent to dissolve the Space Age City Service Corporation was submitted to the Office of Thrift Supervision and approved. Final dissolution of Space Age City Service Corporation was completed during the year ended June 30, 2009. Alamogordo Financial Corporation (Company) was incorporated on April 30, 1997 and is a majority owned subsidiary of AF Mutual Holding Company.

The Company provides a variety of banking services to individuals and businesses through its locations in Alamogordo and Las Cruces, New Mexico. The primary deposit products are demand deposits, certificates of deposit, NOW and money market accounts. The primary lending products are real estate mortgages and commercial loans. The Company is subject to competition from other financial institutions and to regulation by certain federal agencies and undergoes periodic examinations by these regulatory authorities.

A large portion of the Bank's loans are secured by real estate in Otero County, New Mexico. Otero County's economy is heavily dependent on two U.S. Government military installations located in the county. In January, 2008 the Bank expanded its number of locations by opening a new branch in Las Cruces, New Mexico. Las Cruces is the second largest city in New Mexico and one of the fastest growing in the country for its demographics. Accordingly, the ultimate collectibility of the Company's loan portfolio is susceptible to changes in market conditions in southern New Mexico. In addition, the Company's investment portfolio is directly impacted by fluctuations in market interest rates.

Rising and falling interest rate environments can have various impacts on the Bank's net interest income, depending on the short-term interest rate gap that the Bank maintains, the relative changes in interest rates that occur when the Bank's various assets and liabilities reprice, unscheduled repayments of loans, early withdrawals of deposits, and other factors.

Basis of Consolidation. The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates. The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for losses on loans and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans. In connection with the determination of the allowances for losses on loans and foreclosed real estate, management obtains independent appraisals for significant properties.

Cash and Cash Equivalents. For the purpose of reporting cash flows, the Company defines cash and cash equivalents as cash on hand, cash items, amounts due from banks, amounts held with the Federal Reserve, interest-bearing deposits with the Federal Home Loan Bank, and investments in certificates of deposits with original maturities of three months or less.

Advertising Costs. The Company conducts direct and non-direct response advertising. These costs are expensed as incurred. Advertising costs for the years ended June 30, 2009 and 2008 are $161,318 and $155,049, respectively.

Securities. The Company's investments in securities are classified in two categories and accounted for as follows:

> Securities Held-to-Maturity: Bonds, notes and debentures for which the Company has the positive intent and ability to hold to maturity are reported at cost, adjusted for amortization of premiums and accretion of discounts which are recognized in interest income using the interest method over the period to maturity.
>
> Securities Available-for-Sale: Securities available-for-sale consist of bonds, notes, debentures, and certain equity securities not classified as securities to be held-to-maturity. These securities are carried at estimated fair value. Discounts and premiums are accreted or amortized using the interest method.

Unrealized holding gains and losses, net of taxes, on securities available for sale are reported in other comprehensive income until realized. Gains and losses on the sale of mutual fund securities available for sale are recorded on the trade date and are determined using the weighted average method. Gains and losses on the sale of all other securities available for sale are recorded on the trade date using the specific-identification method.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans. The Bank grants mortgage, commercial and consumer loans to customers. A substantial portion of the portfolio is represented by mortgage loans throughout Alamogordo and the surrounding area. The ability of the Bank's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for loan participations sold, charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Personal loans are typically charged off no later than 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on non-accrual or charged-off at an earlier date if management believes that collection of principal or interest is considered doubtful.

All interest accrued, but not collected for loans that are placed on non-accrual or charged off, is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are brought current and future payments are reasonably assured.

Allowance for Loan Losses. The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available. While management may periodically allocate portions of the allowance for specific problem loan situations, including impaired loans discussed below, the whole allowance is

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

available for any charge-offs that occur. Additionally, regulatory agencies, as part of their examination process, periodically review the allowance and may require additions to the allowance based on their judgments of information available during their examinations.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

Loans Held for Sale: Loans held for sale are those loans the Bank intends to sell. They are carried at the lower of aggregate cost or market value. Gains and losses on sales of loans are recognized at settlements dates and are determined by the difference between the sales proceeds and carrying value of the loans. These are generally sold within 30 to 60 days of origination.

Premises and Equipment. Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight line method in amounts sufficient to relate the cost of depreciable assets to operations over the estimated useful lives of the assets which range from three to seven years for equipment and fifteen to forty years for leasehold improvements and buildings. Maintenance and repairs that do not extend the useful lives of premises and equipment are charged to expense as incurred.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Real Estate Owned. Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value at the date of foreclosure less estimated selling cost, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in valuation allowance are included in net expense, whereas costs relating to improvement of the property are capitalized.

Income Taxes. The Company records income tax expense based on the amount of taxes due on its tax return, plus deferred taxes computed based on the expected future tax consequences of temporary differences between the carrying amounts and tax basis of assets and liabilities, using the enacted tax rates.

Loan Origination Fees and Costs. Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment of the yield over the contractual life of the related loan.

Comprehensive Income. Comprehensive income consists of net income and unrealized gains and losses on securities available for sale, net of taxes.

Investment in Federal Home Loan Bank Stock. The Bank, as a member of the Federal Home Loan Bank System, is required to maintain an investment in the capital stock of the Federal Home Loan Bank (FHLB) in an amount equal to .06% of its total assets plus 4.1% of advances from the FHLB. No ready market exists for the Federal Home Loan Bank Stock, and it has no quoted market value.

Stock-Based Compensation. Beginning July 1, 2006, The Company has adopted the provisions of SFAS No. 123R, *Share-Based Payment (SFAS No. 123R)* and related interpretations in accounting for its Stock Option Plan (see Note 13).

Under SFAS No. 123R, the Company separates each award into vesting tranches and recognizes expense on the fair value of the option for each tranche over the vesting period. The fair value of options granted under FAS 123R are estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield, expected stock price volatility, risk free rate of return, and expected life of options.

During the years ended June 30, 2009 and 2008, there were no new options granted. During the years ended June 30, 2009 and 2008, there were no options that vested.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value of Assets and Liabilities. Effective July 1, 2008, the Company adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 has been applied prospectively as of the beginning of the year.

FAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Reclassifications. Certain reclassifications have been made to the 2008 financial statements to conform to the 2009 presentation.

NOTE 2. SECURITIES

The amortized cost and fair values of investment securities are as follows:

Available-for-sale

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2009				
Mortgage-backed securities				
FHLMC	**$ 1,845,897**	**1,325**	**-**	**1,847,222**
GNMA	**2,094,663**	**4,934**	**-**	**2,099,597**
FNMA	**144,225**	**1,459**	**-**	**145,684**
	$ 4,084,785	**7,718**	**-**	**4,092,503**

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2008				
Mortgage-backed securities				
FHLMC	$ 68,215	-	(4,582)	63,633
GNMA	164,077	-	(6,066)	158,011
FNMA	89,746	-	(5,709)	84,037
	$ 322,038	-	(16,357)	305,681

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-maturity				
June 30, 2008				
US Treasuries	$ 5,989,115	158,585	-	6,147,700
	$ 5,989,115	158,585	-	6,147,700

During the year ended June 30, 2009, the Company sold its held-to-maturity portfolio of U.S. Treasury securities prior to the maturity. At the time of the sale, the securities were classified as held-to-maturity and had a book value of $3,990,326. The Company realized a gain of approximately $547,636 on the sale of these investments. Changes in interest rates resulted in market conditions in which these investments could be sold for a gain and the resulting funds reinvested more effectively. The Company believes the sale of these held-to-maturity investments was isolated, nonrecurring and unusual in nature.

NOTE 2. SECURITIES (CONTINUED)

The following table shows the Bank's gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in an unrealized loss position, at June 30, 2008:

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Securities						
Available-for-Sale						
Mortgage-backed						
FHLMC	$ -	-	63,633	(4,582)	63,633	(4,582)
FNMA	-	-	84,037	(5,709)	84,037	(5,709)
GNMA	-	-	158,011	(6,066)	158,011	(6,066)
Total temporarily impaired securities	$ -	-	305,681	(16,357)	305,681	(16,357)

For the year ended June 30, 2008, no securities were deemed to be other than temporarily impaired by management.

At June 30, 2009, there were no securities in an unrealized loss position longer than twelve months. None of these securities in an unrealized loss position were deemed to be other than temporarily impaired by management.

U.S. government securities, carried at approximately $258,777 and $42,943 at June 30, 2009 and 2008, respectively, are pledged to secure public deposits and for other purposes required or permitted by law.

Amortized cost and fair value of securities by contractual maturity are shown below. Expected maturities may differ from contractual maturities because borrowers may call or repay obligations.

	June 30, 2009	
	Amortized Cost	Fair Value
Due in one to five years	$ -	-
Due in six to ten years	-	-
Due in greater than ten years	4,084,785	4,092,503
	$ 4,084,785	4,092,503

NOTE 3. LOANS AND THE ALLOWANCE FOR LOAN LOSSES

Loans held for investment reflected in the consolidated balance sheets consist of the following as of June 30:

	2009	2008
Mortgage loans		
One-to-four family	$ 81,411,163	87,292,609
Multi-family and nonresidential	39,102,478	17,834,565
Construction	11,436,021	12,365,063
Land	8,046,455	3,416,046
Total first mortgage loans	139,996,117	120,908,283
Consumer and other loans		
Second mortgage	487,247	943,858
Consumer	1,028,848	1,278,340
Commercial	4,243,930	4,801,077
Deposit account	365,688	452,744
Total consumer and other loans	6,125,713	7,476,019
Gross Loans	146,121,830	128,384,302
Deferred loan fees and discounts	(517,725)	(473,720)
Loans in process	(378,330)	(1,309,719)
Allowance for loan loss	(734,498)	(271,385)
Net loans, held for investment	$ 144,491,277	126,329,478

An analysis of the allowance for loan losses follows:

	2009	2008
Balance at beginning of year	$ 271,385	443,800
Provision for (Reversal of) loan losses	656,224	(155,413)
Loans charged off, net of recoveries	(193,111)	(17,002)
Balance at end of year	$ 734,498	271,385

Certain loans within the Company's loan and real estate owned portfolios are guaranteed by the Veterans Administration (VA). In the event of default by the borrower, the VA can elect to pay the guaranteed amount or take possession of the property. If the VA takes possession of the property, the Company is entitled to be reimbursed for the outstanding principal balance, accrued interest and certain other expenses. There were no commitments from the VA to take title to foreclosed VA properties at June 30, 2009 and 2008.

NOTE 3. LOANS AND THE ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Included in net loans were loans on non-accrual status. Such loans approximated $4,867,536 and $326,957 at June 30, 2009 and 2008, respectively. For the years ended June 30, 2009 and 2008, gross interest income which would have been recorded had the non-accruing loans been current in accordance with their original terms amounted to $111,925 and $10,245, respectively. No amounts were included in interest income on such loans for the years ended June 30, 2009 and 2008, respectively.

At June 30, 2009, the total recorded investment in impaired loans, all of which had allowances determined in accordance with generally accepted accounting principles (GAAP), amounted to $3,149,793. There were no impaired loans at June 30, 2008. The allowance for loan losses related to impaired loans amounted to approximately $290,000 at June 30, 2009. Interest income on impaired loans of $168,595 was recognized for cash payments received in 2009.

During the year ended June 30, 2009, the Company originated and sold loans of approximately $8,171,000. The Company recognized approximately $105,000 of revenue on these transactions. There were no sold loans during the year ended June 30, 2008.

At June 30, 2009, fixed and variable rate loans were $117,357,919 and $28,763,911, respectively. At June 30, 2008, fixed and variable rate loans were $106,812,263 and $21,572,039, respectively.

Loans to related parties at June 30 were as follows:

	2009	2008
Beginning balance	**$ 3,654,697**	1,423,143
New loans	**4,162,314**	4,519,193
Paydowns and payoffs	**(2,608,472)**	(2,287,639)
Ending balance	**$ 5,208,539**	3,654,697

NOTE 4. PREMISES AND EQUIPMENT

Premises and equipment reflected in the consolidated balance sheets consist of the following at June 30:

	2009	2008
Land	$ 1,998,260	1,051,224
Buildings	7,634,799	7,475,196
Leasehold improvements	27,031	251,503
Furniture and equipment	2,187,480	2,049,366
Automobiles	75,950	-
	11,923,520	10,827,289
Accumulated depreciation	(4,222,626)	(3,969,586)
Balance at end of year	$ 7,700,894	6,857,703

NOTE 5. DEPOSITS

The composition of deposits is as follows at June 30, 2009:

	2009	2008
Demand deposits, noninterest bearing	$ 5,150,637	3,764,829
NOW and money market accounts	16,882,020	15,395,556
Savings deposits	8,511,133	8,028,829
Time certificates, $100,000 or more	30,069,383	23,862,083
Other time certificates	58,172,260	51,348,868
Total	$ 118,785,433	102,400,165

At June 30, 2009, the scheduled maturities of time deposits were as follows:

2010	$31,890,843
2011	40,994,285
2012	8,222,560
2013	4,251,026
2014	2,882,929
	$88,241,643

NOTE 5. DEPOSITS (CONTINUED)

Interest expense as of June 30, is summarized below:

	2009	2008
Transaction and saving deposits	$ 261,760	236,626
Certificate accounts	2,796,377	3,186,280
	$ 3,058,137	3,422,906

The Company held deposits of $1,954,311 and $1,062,861 for related parties at June 30, 2009 and 2008, respectively. The related parties consist of officers and directors of the Company and are made on the same terms and conditions as other non-related parties.

NOTE 6. ADVANCES FROM FEDERAL HOME LOAN BANK

The Bank has the ability to borrow funds from the Federal Home Loan Bank of Dallas (FHLB) up to 50% of total assets. Advances are secured by a blanket-floating lien on qualifying 1-4 family first mortgage loans and commercial loans. At June 30, 2009 and 2008, the Bank had $20,520,132 and $11,820,039, respectively, in outstanding advances with the FHLB. The advances bear interest at fixed rates, which range from 3.149% to 5.154%, and mature as follows:

Maturities for fiscal years ending June 30:

2010	$ 3,399,957
2011	854,990
2012	790,800
2013	4,233,513
2014	4,630,942
Thereafter	6,609,930
	$20,520,132

NOTE 7. EMPLOYEE RETIREMENT BENEFIT PLANS

The Company has established a profit-sharing 401(k) type salary reduction plan for all employees that meet the necessary eligibility requirements for participation in the plan. Participants fully vest after six years of service. Annual contributions are at the discretion of the Board of Directors of the Company. The Company made contributions to the plan of $26,195 and $24,507 for the years ended June 30, 2009 and 2008, respectively.

The Company also participates in a multi-employer defined benefit pension plan. The pension plan is available to all employees completing one year of service. Segregated statements of plan assets or separate actuarial valuations are not available. On June 1, 2006, the Company froze the benefits available under the defined benefit pension plan. Total pension expense was $78,698 and $68,102 for the years ended June 30, 2009 and 2008, respectively. At June 30, 2009 and 2008 the estimated expected unfunded accrued liability under this plan was $77,277 and $35,870, respectively.

NOTE 8. CONTINGENT LIABILITIES AND COMMITMENTS

In the normal course of business, various commitments are outstanding, such as commitments to extend credit. These financial instruments with off-balance sheet risk are not reflected in the consolidated financial statements. Management does not anticipate any significant losses as a result of these transactions. The following summarizes these financial instruments:

	2009	2008
Commitments to originate and sell mortgage loans	**$ 2,687,000**	-
Commitments to extend credit	**7,903,481**	7,053,638
Unused lines-of-credit	**15,426,152**	10,702,073
Commercial letters of credit	**47,266**	-
	$26,063,899	17,755,711

Since certain commitments to make loans and fund lines-of-credit expire without being used, the amounts do not necessarily represent future cash commitments. In addition, commitments used to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. The Company's exposure to credit loss in the event of nonperformance by the other party to these financial instruments is represented by the contractual amount of these instruments. The Company follows the same credit policy to make such commitments as is followed for those loans recorded on the consolidated balance sheet.

NOTE 8. CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

At of June 30, 2009, fixed rate and variable rate commitments to make loans amounted to $6,231,732 and $1,671,749, respectively. The interest rates on fixed and variable rate commitments ranged from 4.75% to 8.5%. At of June 30, 2008, fixed rate and variable rate commitments to make loans amounted to $5,345,766 and $1,707,872, respectively. The interest rates on fixed and variable rate commitments ranged from 5% to 9.25%.

The Company is required by regulatory authorities to maintain certain daily cash balances. The Company's reserve requirements were met through vault cash at June 30, 2009 and 2008.

In 2009, the Bank leased space for its branch in Las Cruces. In 2008, the Bank leased space for its Las Cruces and Alamogordo branches. Lease expense for the years ended June 30, 2009 and 2008 was $44,270 and $55,002 respectively. The lease for the Las Cruces branch began October 1, 2007 and is up for renewal in October 2009. The annual lease is for $18,540 is subject to a 3% annual increase.

The former Bank President's (former President) is currently employed by the Bank. The former President signed an employment agreement, effective December 31, 2008, that provides the former President compensation of $58,200 per year over his lifetime. It is expected that the former President will begin receiving the $58,200 per year annual salary starting February 1, 2010. This agreement requires the former President to consult, when requested to do so, in an advisory capacity, at a service level of no more than fifty percent of the average services provided to the Company during the period of January 31, 2007 to January 31, 2010. The agreement also includes a non-compete clause whereby the former President can not compete with the Company's business in Otero, Dona Ana, or Lincoln counties in New Mexico. Additionally, the new employment agreement requires, as of February 1, 2010, the Company to purchase and maintain a life insurance policy of $600,000 during the former President's lifetime.

NOTE 9. INCOME TAXES

The Company and its subsidiary file a consolidated income tax return. The Company recognizes deferred tax assets and liabilities for future tax consequences of events that have been previously recognized in the Company's financial statements or tax returns. The measurement of deferred tax assets and liabilities is based on provisions of the currently enacted tax law. The effects of future changes in tax laws or rates are not anticipated.

NOTE 9. INCOME TAXES (CONTINUED)

Pursuant to FSP FIN 48-3, management has elected to defer the application of FASB Interpretation No. 48 – Accounting for Uncertainty in Income Taxes to fiscal years beginning after December 15, 2008. Management has evaluated the impact of this interpretation and does not believe it will affect the Company's consolidated financial statements.

The provision (benefit) for income taxes consists of the following:

	2009	2008
Current		
Federal	**$ 391,569**	147,103
State	**68,529**	10,700
	460,098	157,803
Deferred		
Federal	**(94,773)**	92,440
State	**(6,049)**	6,723
	(100,822)	99,163
	$ 359,276	256,966

The income tax differs from the amounts computed by applying the statutory federal income tax rate of 34% to income before income taxes as follows:

	2009	2008
Expense at statutory rate	**$ 309,621**	237,423
State income taxes, net of federal benefit	**27,307**	19,943
Other, net	**22,348**	(400)
	$ 359,276	256,966

NOTE 9. INCOME TAXES (CONTINUED)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities are as follows:

	2009	2008
Deferred tax assets		
Unrealized loss on available-for-sale securities	$ -	6,543
Bad debt reserve	**380,458**	195,215
Reorganization expenses	**8,128**	8,128
Non-accrual loan interest	**44,770**	4,098
REO specific allowance	**16,000**	-
Stock awards	**20,095**	55,151
Total deferred tax assets	**469,451**	269,135
Deferred tax liabilities		
Unrealized gain on available-for-sale securities	**(3,086)**	-
FHLB stock dividends	**(88,210)**	(85,370)
Book/tax depreciation	**(130,059)**	(92,067)
Loan origination costs	**(31,008)**	(34,455)
Total deferred tax liabilities	**(252,363)**	(211,892)
Net deferred tax assets	**$ 217,088**	57,243

Equity of the Bank at June 30, 2009 and 2008 includes approximately $2,700,000 of bad debt deductions for tax years prior to 1987 for which no deferred federal income tax liability has been recorded. Tax legislation passed in August 1996 requires all thrift institutions to deduct a provision for bad debts for tax purposes based on the actual loss experience and recapture the excess bad debt reserve accumulated in the tax years between 1987 and 1995 over a six-year period.

NOTE 10. CONCENTRATIONS OF CREDIT RISK

All of the Company's loans, commitments, and standby letters of credit have been granted to customers in the Company's market area. Investments in state and municipal securities also involve governmental entities within the Company's market area. The concentrations of credit by type of loan are set forth in Note 3. The distribution of commitments to extend credit approximates the distribution of loans outstanding. Standby letters of credit were granted primarily to commercial borrowers. The Company maintains certain balances with other institutions. The balances on deposit with other banks are insured by the Federal Deposit Insurance Corporation up to $250,000 at each institution. The Company had no uninsured cash balances at June 30, 2009 and 2008.

NOTE 11. REGULATORY CAPITAL

The Bank is subject to various regulatory capital requirements administered by the federal thrift agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly discretionary, actions by regulators that, if undertaken, could have a direct and material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier I capital (as defined) to average assets (as defined). Management believes, as of June 30, 2009 and 2008, that the Bank meets all capital adequacy requirements to which it is subject.

As of June 30, 2009, the most recent notification from the Office of Thrift Supervision categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank's category.

The following is a reconciliation of the Bank's equity under accounting principles generally accepted in the United States of America (GAAP) to regulatory capital (dollars in thousands):

		2009	2008
GAAP equity	$	**27,982**	28,222
Investment in subsidiary		**-**	(371)
Unrealized (gain) loss on securities available-for-sale, net of taxes		**(5)**	10
Tier I (Core) capital		**27,977**	27,861
General allowance for loan losses		**445**	271
Total Risk-Based Capital	**$**	**28,422**	28,132

NOTE 11. REGULATORY CAPITAL (CONTINUED)

The Bank's OTS capital ratios are (dollars in thousands):

	Actual		Requirements to be Adequately Capitalized		Requirements to be well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
June 30, 2009						
Tier 1 capital (to adjusted total assets)	**$ 27,977**	**16.5%**	**$ 5,098**	**3.0%**	**$ 8,497**	**5.0%**
Tier 1 capital (to risk weighted assets)	**27,977**	**24.0**	**4,653**	**4.0**	**6,980**	**6.0**
Total risk-based capital (to risk weighted assets)	**28,422**	**24.4**	**9,307**	**8.0**	**11,634**	**10.0**
Tangible capital (to adjusted total assets)	**27,977**	**16.5**	**N/A**	**N/A**	**2,549**	**1.5**
June 30, 2008						
Tier 1 capital (to adjusted total assets)	$ 27,861	19.4%	$ 4,320	3.0%	$ 7,199	5.0%
Tier 1 capital (to risk weighted assets)	27,861	30.9	3,608	4.0	5,412	6.0
Total risk-based capital (to risk weighted assets)	28,132	31.2	7,216	8.0	9,021	10.0
Tangible capital (to adjusted total assets)	27,861	19.4	N/A	N/A	2,160	1.5

NOTE 12. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards No. 107, *Disclosures about Fair Value of Financial Instruments* (FAS 107) requires that the Company disclose estimated fair values for its financial instruments. Fair value estimates, methods and assumptions are set forth below for the Company's financial instruments.

Cash and Cash Equivalents. The carrying amount approximates fair value because of the short maturity of these instruments.

Securities. The fair value of securities is estimated based on market values received from a securities broker.

NOTE 12. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Loans. The fair value of one-to-four-family, fixed, and adjustable-rate mortgages is calculated by using the option-based pricing approach that makes use of the Monte Carlo simulation. The Monte Carlo model uses an interest rate simulation program to generate numerous random interest rate paths that, in conjunction with a prepayment model, are used to estimate mortgage cash flows along each path. The fair value of other loans in the portfolio is calculated by using the static discounted cash flow approach. Under the static discounted cash flow approach, the economic value of a financial instrument is estimated by calculating the present value of the instrument's expected cash flows. The present value is determined by discounting the cash flows the instrument is expected to generate by the yield currently available to investors from an instrument of comparable risk and duration.

Deposits. The fair value of deposits with no stated maturity, such as non-interest bearing demand deposits, NOW accounts, money market demand and savings accounts, is equal to the amount payable on demand. The fair value of certificate accounts is based on the static discounted cash flow approach. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities.

Advances from the Federal Home Loan Bank (FHLB). The fair value of the advance from the FHLB is based on the static discounted cash flow approach. Monthly cash flows are discounted by the LIBOR appropriate to each month.

Off-Balance Sheet Financial Instruments. The fair value of financial instruments with off-balance sheet risk is based on the credit quality and relationship, probability of funding and other requirements. Fair values of off-balance sheet financial instruments are not material to the consolidated financial statements.

Limitations. Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

NOTE 12. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value estimates are based on existing on-and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. For example, significant assets that are not considered financial instruments include premises and equipment. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of the estimates.

The estimated fair values of the Company's financial instruments are as follows:

		June 30, 2009		June 30, 2008	
		Carrying Value	**Estimated Fair Value**	Carrying Value	Estimated Fair Value
Financial Assets					
Cash and due from banks	**$**	**1,631,849**	**1,631,849**	2,474,987	2,474,987
Interest-bearing deposits with banks		**8,975,045**	**8,975,045**	810,421	810,421
Securities		**4,092,503**	**4,092,503**	6,294,796	6,453,381
Total loans		**145,107,492**	**151,543,601**	126,329,477	127,402,229
Accrued interest		**587,932**	**587,932**	565,972	565,972
Financial Liabilities					
Deposits		**118,785,433**	**120,933,300**	102,400,165	103,713,165
Escrows		**411,169**	**412,986**	461,602	463,360
Accrued interest		**76,762**	**76,762**	78,391	78,391
Advances from FHLB		**20,520,132**	**20,361,653**	11,820,039	11,760,884

NOTE 12. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Effective July 1, 2008, the Company adopted the provisions of SFAS No. 157, *Fair Value Measurements* for financial assets and financial liabilities. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. Valuation techniques are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's assumptions about market value. These two types of inputs create the following fair value hierarchy:

- Level 1 - Quoted prices for identical instruments in active markets.
- Level 2 - Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable.
- Level 3- Instruments whose significant value drivers are unobservable.

The following table summarizes the Company's financial instruments that were measured at fair value on a recurring basis at June 30, 2009:

	Quoted Prices in Active Markets For Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Balance as of June 30, 2009
Securities available for sale	$ -	4,092,503	-	4,092,503
Total assets at fair market value	$ -	4,092,503	-	4,092,503

Securities available for sale are valued based upon open-market quotes obtained from reputable third-party brokers. Market pricing is based upon specific CUSIP identification for each individual security. Changes in fair market value are recorded in other comprehensive income as the securities are available for sale.

NOTE 12. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). These assets are recorded at the lower of amortized cost or current market value, and a valuation allowance reflects any unrealized market value losses, offset to an expense account. The following table summarizes the Company's financial instruments that were measured at fair value on a non-recurring basis at June 30, 2009:

	Quoted Prices in Active Markets For Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Balance as of June 30, 2009
Impaired loans	$ -	-	3,149,793	3,149,793
Total assets at fair market value	$ -	-	3,149,793	3,149,793

Fair value measurements for impaired loans are performed pursuant to SFAS No. 114, and are based upon one of three methods to measure impairment: the fair value of the collateral less disposition costs, the present value of expected future cash flows method, or the observable market price of a loan method. A loan may be considered impaired, but the value is considered sufficient to support a fair value equal to or greater than the carrying value of the loan, and no specific reserve is deemed necessary to record such impairment. The change in fair value of impaired assets that were valued based upon level three inputs, for which there was a specifically identified reserve, resulted in an increase of specifically allocated reserve of $289,000 for the year ended June 30, 2009. The loss or gain in specifically allocated reserve is not recorded directly as an adjustment to current earnings or comprehensive income, but rather as an adjustment component in determining the overall adequacy of the loan loss reserve. Such adjustments to the estimated fair value of impaired loans may result in increases or decreases to the provision for loan losses recorded in current earnings.

NOTE 13. STOCK-BASED COMPENSATION PLANS

The Company adopted an employee stock ownership plan (ESOP) effective January 1, 2000 for all employees meeting certain age and service requirements. Participants begin vesting after three years of employment and fully vest after seven years of service. The plan acquired 28,560 shares of the Company's common stock at $10 per share. The Bank borrowed $285,600 from the Company which is payable at $28,560 per year with interest at 8% through June 30, 2009. Per AICPA Statement of Position 93-6, *Employer's Accounting for Stock Ownership Plans,* the unpaid balance of the ESOP loan has not been reported in the consolidated balance sheets. The ESOP shares are held in trust and released to the Plan pro rata as principal payments are made. On June 30, 2009 and 2008, the trust allocated 2,856 shares of stock to participant accounts.

The following information relates to the ESOP for the years ended June 30, 2009 and 2008:

		2009	2008
Shares committed to be released		**2,856**	2,856
Estimated fair value of unallocated (unearned) shares	$	**-**	174,216
Compensation expense		**58,427**	85,231

Shares held by the ESOP at June 30 are as follows:

	2009	2008
Allocated shares	**28,560**	25,704
Unallocated shares	**-**	2,856
Total ESOP shares	**28,560**	28,560

The Company adopted a Stock Option Plan effective June 25, 2001. Under the terms of the plan, the Company authorized the awarding of 35,700 shares of the Company's common stock to directors and key employees at an exercise price of $18.50 per share. The directors are 100% vested in the options becoming exercisable as of June 25, 2001. The options become exercisable for the key employees at a vesting rate of 20% per year over five years beginning July 1, 2002 and have an exercise date of ten years from the date of grant. The exercise price equaled the market price on the date the options were granted. The weighted average remaining life of common stock options at June 30, 2009 and 2008 is three and four years, respectively.

NOTE 13. STOCK-BASED COMPENSATION PLANS (CONTINUED)

A summary of common stock options under the Stock Option Plan follows:

	Options	Price Range	Weighted Average Price	Options Exercisable
Balance, June 30, 2007	9,440	$ 18.50	$ 18.50	9,440
Granted	-			
Forfeited	-			
Exercised	(4,436)	18.50	18.50	
Balance, June 30, 2008	5,004	18.50	18.50	5,004
Granted	-			
Forfeited	-			
Exercised	-			
Balance, June 30, 2009	**5,044**	**$ 18.50**	**$ 18.50**	**5,044**

During the year ended June 30, 2008, certain employees exercised 4,436 options in exchange for 2,357 shares of stock which resulted in no exchange of cash (cashless exercise). There were no options exercised during the year ended June 30, 2009.

The Company adopted a Recognition and Retention Plan (RRP) effective June 25, 2001. In 2001, the Company contributed $320,365 allowing the RRP to acquire 17,317 shares of common stock of the Company, at $18.50 per share, awarded to directors and key employees. Stock awards for 7,586 shares to the directors vested 50% on November 1, 2001 and 50% on November 1, 2002. Stock awards for 9,731 shares to key employees vest at 20% per year over five years beginning July 1, 2002. The un-amortized cost of shares not yet earned (vested) is reported as a reduction of stockholders' equity. In November 2007, the Company contributed $323,068 allowing the RRP to acquire 9,502 shares of common stock of the Company, at $34.00 per share, awarded to directors and key employees. Stock awards for 3,670 shares to the directors vested 50% on January 1, 2008 and the remaining 50% vested on January 1, 2009. Stock awards for 5,832 shares to key employees vest at 20% per year over five years beginning July 1, 2008. The un-amortized cost of shares not yet earned (vested) is reported as a reduction of stockholders' equity. RRP compensation expense was $50,238 and $137,879 for the years ended June 30, 2009 and 2008, respectively.

NOTE 14. PARENT COMPANY ONLY FINANCIAL INFORMATION

Balance Sheets - Parent Company Only
June 30, 2009 and 2008

	2009	2008
ASSETS		
Cash in subsidiary bank	$ 989,476	865,825
Investment in subsidiaries	28,155,275	28,400,913
Income taxes receivable	229,957	-
Other assets	1,135	1,171
Total assets	29,375,843	29,267,909
LIABILITIES AND EQUITY		
Liabilities		
Accounts payable	16,013	84,929
Commitments and Contingencies		
Equity		
Preferred stock, $.10 par value, 10,000,000 shares authorized, no shares issued or outstanding	-	-
Common stock, $.10 par value, 20,000,000 shares authorized, 1,316,996 and 1,315,059 issued and outstanding at 2009 and 2008, respectively	131,700	131,506
Treasury stock, at cost, 4,349 and 4,263 shares at 2009 and 2008, respectively	(135,056)	(132,915)
Additional paid in capital	4,134,142	4,125,121
Unearned ESOP shares and stock awards	(114,299)	(213,749)
Retained earnings, substantially restricted	25,343,343	25,273,017
Total equity	29,359,830	29,182,980
Total liabilities and equity	$29,375,843	29,267,909

NOTE 14. PARENT COMPANY ONLY FINANCIAL INFORMATION (CONTINUED)

Statements of Income - Parent Company Only
Years Ended June 30, 2009 and 2008

	2009	2008
Income		
Income on investment in subsidiary	$ 636,953	497,302
Interest on other interest-earning assets	5,181	7,965
Dividend income from subsidiary	1,000,000	1,000,000
Total income	1,642,134	1,505,267
Expense		
Insurance fees	300	-
Other	130,658	79,205
Total expense	130,958	79,205
Income before income taxes	1,511,176	1,426,062
Benefit for income taxes	40,202	15,268
Net income	$ 1,551,378	1,441,330

NOTE 14. PARENT COMPANY ONLY FINANCIAL INFORMATION (CONTINUED)

Statements of Cash Flows - Parent Company Only
Years Ended June 30, 2009 and 2008

	2009	2008
Cash Flows From Operating Activities		
Net income	**$ 1,551,378**	1,441,330
Adjustments to reconcile net income to net cash used by operating activities		
Equity in undistributed income of subsidiaries	**(1,631,253)**	(1,488,337)
Changes in assets and liabilities		
Other assets	**36**	6
Income taxes receivable	**(229,957)**	230,579
Income taxes	**(68,916)**	84,929
Net cash (payable) provided by operating activities	**(378,712)**	268,507
Cash Flows From Financing Activities		
Repurchase of Company stock	**(2,141)**	(38,265)
Cash dividend received from subsidiary	**1,000,000**	1,000,000
Cash dividends paid on common stock	**(495,496)**	(425,116)
Net cash provided by financing activities	**502,363**	536,619
Net increase in cash and cash equivalents	**123,651**	805,126
Cash and cash equivalents, beginning of year	**865,825**	60,699
Cash and cash equivalents, end of year	**$ 989,476**	865,825

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